

Plateau Resources Limited

ANNUAL REPORT



YEAR 1978



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R. C. Youngdahl
President

March 16, 1979

To the Shareholder of
Plateau Resources Limited

This report summarizes the major activities of Plateau Resources Limited for the year 1978. Included in this report are the Company's financial statements and auditors' report from Arthur Andersen & Co.

During 1978 the Company took several major steps toward meeting its objective of becoming a long term minerals company. Of particular significance were the results of its exploration program in the Henry Mountain region of Utah, the signing of two joint venture agreements, progress in the development of the Tony M Mine, and considerable progress on the design of its proposed uranium processing facility.

Organization

During the year the Company completed its transition from the substantial use of independent contractors to operating almost completely with Company employees. Due to this transition and the increased activity of the Company, the number of employees increased from 96 at the end of 1977 to 169 at the end of 1978. With the changes that have been made, the Company is able to carry on its operations more effectively.

During 1978 the International Union of Operating Engineers attempted to organize the Company's employees located in Shootaring Canyon. The matter was brought to a vote and the employees rejected the Union as their collective bargaining agent by a ratio of 9 to 1.

Acquisition and Exploration

As of the end of 1978 the Company controlled about 250,000 acres of property that it either owns directly or through its two new joint ventures. Both of the joint ventures were entered into effective October 1. The Sage Plain Joint Venture is with Nuclear Dynamics Inc. and Frontier Resources Inc., a subsidiary of Marathon Oil. The properties are located in San Juan County, Utah. The Company is the manager of the joint venture and will earn a 50% interest by contributing exploration funds over the next two years. The second joint venture, the Great Basin Joint Venture, is with Brush Wellman Inc., headquartered in Cleveland, Ohio, with major beryllium operations located in west central Utah. The Company is also the manager of this

To the Shareholder of
Plateau Resources Limited

Acquisition and Exploration (Contd)

joint venture and will earn a 51% interest in the joint venture properties also by contributing exploration funds over the next four years.

Approximately 580,000 feet of exploration drilling were completed during the year, including 333,000 in the Henry Mountains District and 236,000 in the Blanding District. As a result of this drilling, the Frank M Mine was defined in the Henry Mountains District; and, of 19 prospects explored in the Blanding District, 7 have resulted in establishing indicated mineralization. The Company estimates as a result of exploration that there is uranium mineralization defined by drilling, including potential mineralization, on its properties equivalent to approximately 10 million pounds of U_3O_8 .

At year's end, the Company's proposal to the Navajo nation to conduct exploration on reservation properties, located in northeast Arizona, remained outstanding. There are indications that the Navajo nation favors the Company's proposal. It is anticipated that negotiations with the Navajo nation could begin during 1979. However, it is anticipated that such negotiations would take months, if not years, to complete.

Mining Activities

Significant development activity took place during the year on the Tony M Mine. Over 13,000 feet of advance were completed in the main haulageways and in the laterals close to the mine portal. During this development activity over 90,000 tons of ore and waste were removed which included over 9,000 tons of ore at an average grade of .087% U_3O_8 . Significant progress was made on mining plans concerning the continued development of the ultimate production from the Tony M and Frank M Mines.

Processing Activities

The Company's ore buying station located in Blanding, Utah processed approximately 20,000 tons of ore and had an inventory of approximately 35,000 tons at an average grade of .103% U_3O_8 at year's end. The level of ore purchasing activity significantly increased towards the end of 1978 and it is anticipated that during the coming year purchases of ore could be nearly double the levels of last year.

During 1978 the Company received disappointing news from the Nuclear Regulatory Commission, which informed the Company that it would have to apply for a new Source Material License rather than rely on the license it had purchased from Hi-Plains Minerals Ltd in 1977. As a result of this, the construction of the Shootaring Canyon processing facility had to be delayed until the NRC issues a new Source Material License and permission to proceed with construction. In order to receive the license, the NRC requires, among other things, that an environmental impact report be prepared by the applicant. The NRC in turn must prepare its own report. Fortunately, the Company had previously undertaken preparation of an environmental report and was therefore able to submit that report to the Nuclear Regulatory Commission in May of 1978. As of this date, the NRC's review is complete

3

To the Shareholder of
Plateau Resources Limited

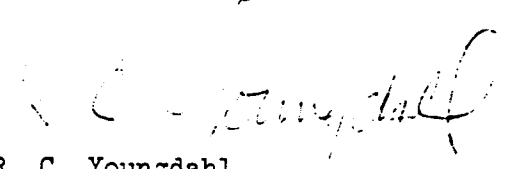
Processing Activities (Contd)

and they are awaiting comments from other agencies. It is expected that the Company will receive permission to proceed with construction of the processing facility in the second quarter of 1979. In the meantime, the Company has proceeded to work with Mountain States Mineral Enterprises on engineering of the Shootaring Canyon processing facility. That work is more than 70% complete.

Summary

Plateau's progress during 1978 has been very significant, and the Company is moving very rapidly towards being able to produce significant quantities of U_3O_8 for the Shareholder. The progress made by the Company is due to a tremendous effort put forth by the Company's employees who are to be complimented for the year's achievements.

Yours very truly,


R. C. Youngdahl
President

PLATEAU RESOURCES LIMITED
List of Directors and Officers

Directors

A. H. Aymond
W. R. Boris
J. B. Falahee
R. L. Heiks
L. B. Lindemer
J. D. Selby
J. B. Simpson
R. C. Youngdahl

Officers

R. C. Youngdahl - President
W. R. Boris - Vice President
B. O. Fisher - Vice President
R. L. Heiks - Vice President
L. B. Lindemer - Vice President
J. L. Bacon - General Counsel
P. A. Perry - Secretary and Assistant Treasurer
R. M. Griswold - Treasurer and Assistant Secretary
L. K. Carstens - Assistant Secretary
T. A. McNish - Assistant Secretary
R. L. Bayn - Assistant Treasurer
R. T. Berg - Assistant Treasurer
R. E. Maloney - Assistant Treasurer

ARTHUR ANDERSEN & CO.

36 SOUTH STATE STREET
SALT LAKE CITY, UTAH 84111

(801) 533-0820

To the Board of Directors and Shareholder
of Plateau Resources Limited:

We have examined the balance sheet of PLATEAU RESOURCES LIMITED (a Utah corporation in the development stage and a wholly owned subsidiary of Consumers Power Company) as of December 31, 1978 and 1977, and the related statements of operations, shareholder's equity and changes in financial position for the years then ended and from inception (June 7, 1976) through December 31, 1978. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As indicated in Note 1 to the financial statements, a significant portion of the assets of Plateau Resources Limited represents costs incurred in connection with the acquisition, exploration and development of uranium property (totaling \$25,025,720 at December 31, 1978, and \$14,947,773 at December 31, 1977, as reflected in the accompanying balance sheet). Recovery of these costs is dependent upon the success of future activities in proving commercial quantities of uranium reserves and the development of mining and processing operations.

In our opinion, subject to the realization of the costs referred to in the preceding paragraph, the accompanying financial statements present fairly the financial position of Plateau Resources Limited as of December 31, 1978 and 1977, and the results of its operations and the changes in its financial position for the years then ended and from inception through December 31, 1978, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Salt Lake City, Utah

January 26, 1979

PLATEAU RESOURCES LIMITED

BALANCE SHEET (NOTES 1 AND 2)

AS OF DECEMBER 31, 1978 AND 1977

ASSETS

CURRENT ASSETS:

	<u>1978</u>	<u>1977</u>
Cash	\$ 665,301	\$ 611,150
Commercial paper, 10.125% and 10.3%, maturing in January, 1979	2,482,257	--
Receivables -		
Parent Company	4,658,699	3,809,641
Employees and other	179,083	74,919
Materials and supplies	175,820	145,949
Prepaid expenses	<u>43,928</u>	<u>12,261</u>
Total current assets	<u>8,205,088</u>	<u>4,653,920</u>

PROPERTY, at cost (Note 3):

Advance royalties	392,009	5,520
Buildings and equipment	4,073,110	2,990,176
Acquisition costs of mineral properties	7,766,595	6,462,023
Exploration costs	4,007,594	2,249,310
Mine development costs	5,379,283	2,443,250
Other	<u>1,370,708</u>	<u>579,818</u>
	22,989,299	14,730,097

Less - accumulated depreciation, depletion and amortization

	<u>(1,797,294)</u>	<u>(1,208,113)</u>
	21,192,005	13,521,984
	<u>3,833,715</u>	<u>1,425,789</u>
Construction work in progress (Note 6)	<u>25,025,720</u>	<u>14,947,773</u>
INVESTMENTS IN JOINT VENTURES (Note 10)	<u>139,381</u>	--

OTHER ASSETS:

Purchased and produced ore inventories	3,938,916	2,449,393
Ore purchase advances (Note 4)	249,597	274,849
Deposits	<u>25,641</u>	<u>51,792</u>
	<u>4,214,154</u>	<u>2,776,034</u>
	<u>\$37,584,343</u>	<u>\$22,377,727</u>

LIABILITIES AND SHAREHOLDER'S EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 1,058,093	\$ 703,853
Accrued liabilities	253,223	164,215
Payable to Parent Company	23,639	36,731
Current portion of contracts payable	<u>202,544</u>	<u>185,000</u>
Total current liabilities	<u>1,537,499</u>	<u>1,089,799</u>

LONG-TERM CONTRACTS PAYABLE, less current portion (Note 8)

	<u>459,538</u>	<u>115,000</u>
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DEFERRED INCOME TAXES (Note 5)

	<u>5,468,444</u>	<u>3,098,200</u>
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COMMITMENTS AND CONTINGENCIES (Notes 3, 4, 6, 7, 9 and 10)

SHAREHOLDER'S EQUITY:
Common stock, \$1,000 stated value, 50,000 shares authorized, 34,000 shares and 20,000 shares issued and outstanding in 1978 and 1977, respectively

	34,000,000	20,000,000
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Deficit accumulated during the development stage

	<u>(3,881,138)</u>	<u>(1,925,772)</u>
	<u>30,118,862</u>	<u>18,074,228</u>
	<u>\$37,584,343</u>	<u>\$22,377,727</u>

The accompanying notes to financial statements are an integral part of this balance sheet.

PLATEAU RESOURCES LIMITED
STATEMENT OF OPERATIONS (NOTES 1 AND 2)
FOR THE YEAR ENDED DECEMBER 31, 1978 AND 1977, AND
CUMULATIVE FROM INCEPTION

	<u>1978</u>	<u>1977</u>	<u>Cumulative From Inception</u>
REVENUES:			
Interest (Note 4)	\$ 26,955	\$ 11,150	\$ 39,837
Other	--	1,649	1,649
Total revenues	<u>26,955</u>	<u>12,799</u>	<u>41,486</u>
EXPENSES:			
Abandoned properties -			
Mining claims and leases	565,287	789,495	1,479,117
Processing facility license (Note 3)	460,000	--	460,000
Mill research and design	--	1,270,250	1,403,640
Noncapitalized operating expenses	806,844	97,815	904,659
Administrative	1,910,544	1,270,556	3,248,100
Depreciation and amortization	<u>135,321</u>	<u>18,462</u>	<u>153,783</u>
Total expenses	<u>3,877,996</u>	<u>3,446,578</u>	<u>7,649,299</u>
(LOSS) BEFORE INCOME TAX BENEFIT	(3,851,041)	(3,433,779)	(7,607,813)
INCOME TAX BENEFIT (Note 5)	<u>1,895,675</u>	<u>1,676,000</u>	<u>3,726,675</u>
NET (LOSS)	<u><u>\$(1,955,366)</u></u>	<u><u>\$(1,757,779)</u></u>	<u><u>\$(3,881,138)</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

PLATEAU RESOURCES LIMITED

STATEMENT OF SHAREHOLDER'S EQUITY (NOTES 1 AND 2)

FROM INCEPTION THROUGH DECEMBER 31, 1978

Common Stock, \$1,000 Stated Value, 50,000 Shares Authorized		Deficit Accumulated During the Development Stage		Total
Shares	Amount			
1,500	\$ 1,500,000	\$ --	\$ 1,500,000	
1,500	1,500,000	--	1,500,000	
300	300,000	--	300,000	
1,700	1,700,000	--	1,700,000	
--	--	(167,993)	(167,993)	
5,000	5,000,000	(167,993)	4,832,007	
3,000	3,000,000	--	3,000,000	
6,000	6,000,000	--	6,000,000	
2,000	2,000,000	--	2,000,000	
2,000	2,000,000	--	2,000,000	
2,000	2,000,000	--	2,000,000	
--	--	(1,757,779)	(1,757,779)	
20,000	20,000,000	(1,925,772)	18,074,228	
2,000	2,000,000	--	2,000,000	
2,000	2,000,000	--	2,000,000	
2,000	2,000,000	--	2,000,000	
1,000	1,000,000	--	1,000,000	
1,000	1,000,000	--	1,000,000	
1,000	1,000,000	--	1,000,000	
1,000	1,000,000	--	1,000,000	
1,000	1,000,000	--	1,000,000	
3,000	3,000,000	--	3,000,000	
--	--	(1,955,366)	(1,955,366)	
34,000	\$34,000,000	\$(3,881,138)	\$30,118,862	

COMMON STOCK ISSUED TO PARENT COMPANY:

July 22, 1976
October 4, 1976
November 23, 1976
December 1, 1976

NET (LOSS)

BALANCE, December 31, 1976

COMMON STOCK ISSUED TO PARENT COMPANY:

February 8, 1977
May 9, 1977
July 7, 1977
August 23, 1977
October 25, 1977

NET (LOSS)

BALANCE, December 31, 1977

COMMON STOCK ISSUED TO PARENT COMPANY:

January 10, 1978
March 7, 1978
April 25, 1978
June 21, 1978
October 23, 1978
November 1, 1978
November 20, 1978
December 21, 1978
December 28, 1978

NET (LOSS)

BALANCE, December 31, 1978

The accompanying notes to financial statements are an integral part of this statement.

PLATEAU RESOURCES LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION (NOTES 1 AND 2)

FOR THE YEAR ENDED DECEMBER 31, 1978 AND 1977,

AND CUMULATIVE FROM INCEPTION

	<u>1978</u>	<u>1977</u>	<u>Cumulative From Inception</u>
SOURCE OF FUNDS:			
Net (loss)	\$(1,955,366)	\$(1,757,779)	\$(3,881,138)
Add items not requiring use of funds-			
Depreciation and amortization	135,321	18,462	153,783
Deferred taxes (Note 5)	2,369,744	2,308,300	5,468,444
Abandoned properties	1,025,287	2,059,745	3,342,757
Loss on disposal of fixed assets	91,735	--	91,735
Funds provided from operations	<u>1,666,721</u>	<u>2,628,728</u>	<u>5,175,581</u>
Common stock issued to Parent Company	14,000,000	15,000,000	34,000,000
Increase in long-term contracts payable	<u>550,412</u>	<u>--</u>	<u>690,733</u>
	<u>\$16,217,133</u>	<u>\$17,628,728</u>	<u>\$39,866,314</u>
APPLICATION OF FUNDS:			
Property (Note 3)	\$11,330,290	\$14,464,777	\$29,728,066
Ore inventories	1,489,523	1,335,322	2,824,845
Ore purchase advances (Note 4)	(25,252)	39,298	249,597
Deposits	(26,151)	51,792	25,641
Decrease in long-term contracts payable	205,874	25,321	231,195
Investment in Joint Ventures	139,381	--	139,381
Increase in working capital	<u>3,103,468</u>	<u>1,712,218</u>	<u>6,667,589</u>
	<u>\$16,217,133</u>	<u>\$17,628,728</u>	<u>\$39,866,314</u>
COMPONENTS OF INCREASE (DECREASE) IN CURRENT ASSETS AND (INCREASE) DECREASE IN CURRENT LIABILITIES:			
Cash	\$ 54,151	\$ (633,758)	\$ 665,301
Commercial paper	2,482,257	--	2,482,257
Receivables	953,222	2,892,620	4,837,782
Materials and supplies	29,871	145,949	175,820
Prepaid expenses	31,667	(8,573)	43,928
Accounts payable	(354,240)	(703,853)	(1,058,093)
Accrued liabilities	(89,008)	(164,215)	(253,223)
Payable to Parent Company	13,092	54,416	(23,639)
Payable to Hi-Plains Minerals, Ltd.	--	205,245	--
Current portion of contracts payable	<u>(17,544)</u>	<u>(75,613)</u>	<u>(202,544)</u>
	<u>\$ 3,103,468</u>	<u>\$ 1,712,218</u>	<u>\$ 6,667,589</u>

The accompanying notes to financial statements
are an integral part of this statement.

PLATEAU RESOURCES LIMITED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1978 AND 1977

(1) DEVELOPMENT STAGE ACTIVITIES

Plateau Resources Limited (the "Company") was organized as a wholly owned subsidiary of Consumers Power Company ("Consumers Power") on June 7, 1976, to acquire, explore and develop uranium and related properties. The Company has acquired uranium properties, performed exploration and development activities for certain of the properties, mined and purchased uranium ore and constructed an ore buying station. In addition, the Company is determining the feasibility of constructing a uranium concentrate processing facility. The Company intends to initially sell most of the uranium produced to Consumers Power.

The recovery of the uranium property costs of the Company is dependent upon the success of future activities in proving commercial quantities of recoverable reserves and the development of mining and processing operations.

The Company began to manage operations with its own employees to a limited extent, in early 1977. Since March 31, 1978, it has managed all operations. Prior to developing its own staff, the Company engaged Nuclear Assurance Corporation ("NAC") to manage and acquire properties and engaged Hi-Plains Minerals, Ltd. ("Hi-Plains") to operate certain properties. Additionally, the Company relied on Consumers Power for certain administrative services. NAC, Hi-Plains and Consumers Power were compensated by the Company at those companies' costs for services rendered. (See Note 6 regarding contingencies relative to services rendered by NAC.)

(2) SIGNIFICANT ACCOUNTING POLICIES

Property

All costs associated with the acquisition and operation of uranium properties are capitalized, including mineral exploration and mine development costs. Costs associated with abandoned properties are expensed in the current period.

Property costs are depreciated, depleted or amortized for financial reporting purposes over the useful or reserve lives of the related assets by the straight-line or unit-of-production methods. Useful lives utilized by the Company for calculating depreciation are as follows:

Buildings	20 years
Equipment	8 years
Other	3 to 15 years

Upon disposition of an asset, its cost and related depreciation, depletion or amortization are removed from the accounts and any resulting gain or loss is recognized.

Development Ore

Costs incurred in mining development ore are capitalized as mine development costs. Proceeds from the sale of ore encountered during the development of mines and subsequently processed into uranium concentrate will be credited against the related capitalized development costs.

Inventories

Purchased and produced ore inventories are stated at the lower of average cost or market. Materials and supplies are stated at average cost.

Mill Research and Design

Mill research and design costs related to testing new ore processing methods are expensed currently. Costs related to developing proven processing methods are capitalized as property.

Noncapitalized Operating and Administrative Expenses

Noncapitalized operating and administrative expenses not associated with property acquisition, exploration, mine development or ore purchasing are expensed currently.

Income Taxes

The Company is included in the consolidated Federal income tax return filed by its parent company, Consumers Power. The Company has reflected the income tax benefit realized from its operations without regard to limitations which would be imposed if the Company filed a separate return. Such income tax benefits are payable to the Company by Consumers Power. Deferred income taxes are provided for all income tax timing differences.

Benefits realized from investment tax credits are initially deferred and subsequently recognized over the estimated useful lives of the related properties for financial reporting purposes.

Joint Ventures

The Company accounts for its joint venture interests using the equity method wherein the investments are capitalized at cost, to be adjusted for the Company's share of profits and losses.

(3) ACQUISITION

In May, 1977, the Company acquired the properties of Hi-Plains in southeastern Utah, consisting principally of unpatented mining claims, mineral leases, mining equipment, a non-operating uranium processing facility, water rights, licenses and permits.

The properties were made available to the Company as a result of a prior year's transaction in which Consumers Power delivered 591,000 pounds of uranium concentrate to NAC for future redelivery to Consumers Power. NAC subsequently sold the uranium concentrate received from Consumers Power, but was unable to obtain from its anticipated supplier, Hi-Plains, uranium concentrate needed to fulfill the supply commitment.

The purchase price consisted of the following:

Noncontingent purchase
price paid at closing -

Cash	\$5,371,000
Liabilities assumed	299,597
	<u>\$5,670,597</u>

Contingent obligations payable
in the event uranium concen-
trate production and economi-
cally recoverable reserves
aggregate -

600,000 pounds	\$ 350,000
1,000,000 pounds	1,000,000
1,500,000 pounds	500,000
	<u>\$1,850,000</u>

The noncontingent price was accounted for as a purchase transaction and has been allocated as follows for financial reporting purposes:

Acquisition cost of mineral properties	\$4,170,597
Buildings and equipment-	
Mining machinery and equipment	1,000,000
Processing facility license and other permits	500,000
	<u>\$5,670,597</u>

In addition, the Company is required to pay certain royalties under the agreement. Advance royalties are based upon graduated rates applied to the value of uranium concentrate contained in economically recoverable reserves in excess of 591,000 pounds. The advance royalties become payable once such quantities reach one million pounds of uranium concentrate and after 591,000 pounds have been milled. Advance royalty payments will be applied against production royalties. Production royalties are payable, in cash or in kind, at graduated percentages of the value of uranium concentrate milled after advance royalties commence.

All contingent obligations for which the Company may become liable will be allocated to acquisition costs of mineral properties; no such contingent obligations are reflected in the accompanying financial statements since sufficient quantities of economically recoverable proven reserves, as defined in the purchase agreement, do not exist.

In 1978, the cost previously allocated to the processing facility license of \$460,000 was written off because it was of no further benefit to the Company. Application to the United States Nuclear Regulatory Commission for a new processing facility license has been made, and, at December 31, 1978, the application was pending.

(4) ORE PURCHASE ADVANCES

The Company has entered into ore purchase agreements to obtain additional sources of uranium ore. Under such agreements and depending on availability, the Company may purchase a minimum of 1,410 tons of uranium ore per month at specified prices, with the option to purchase additional quantities. Under certain of these agreements, funds have been advanced to property owners to be used for uranium exploration and development, equipment purchases, and operating capital. These agreements provide for repayment of the funds advanced at certain rates per pound or at specific percentages of the value of uranium concentrate contained in the ore delivered. The agreements typically do not provide for repayment in the event insufficient ore quantities are discovered. Certain ore purchase agreements provide for interest on purchase advances until fully recovered.

(5) INCOME TAXES

The Company's income tax benefit is equal to the Federal statutory rate (48 percent) applied to the loss before income taxes, adjusted principally by the portion of the investment tax credit recognized currently. The components of the income tax benefit are as follows:

	<u>1978</u>	<u>1977</u>	<u>Cumulative From Inception</u>
Current tax benefit	<u>\$4,265,419</u>	<u>\$3,984,300</u>	<u>\$9,195,119</u>
Deferred tax expense-			
Tax timing differences	(2,239,018)	(2,167,200)	(5,161,618)
Investment tax credit	(151,973)	(176,500)	(363,473)
Amortization of deferred investment tax credit	21,247	35,400	56,647
	<u>(2,369,744)</u>	<u>(2,308,300)</u>	<u>(5,468,444)</u>
	<u>\$1,895,675</u>	<u>\$1,676,000</u>	<u>\$3,726,675</u>

Deferred tax expense resulting from tax timing differences is as follows:

	<u>1978</u>	<u>1977</u>	<u>Cumulative From Inception</u>
Mining costs deducted for tax purposes and deferred for financial reporting purposes -			
Mineral exploration	\$ 812,846	\$1,050,300	\$1,923,646
Ore inventory	(591,032)	605,200	14,168
Mine development	1,801,868	98,900	2,582,068
Accelerated depreciation	105,907	201,000	320,507
Exploration costs of joint ventures	30,903	--	30,903
General accounting systems costs deducted for tax purposes and deferred for financial reporting purposes	87,910	197,200	285,110
Other	(9,384)	14,600	5,216
	<u>\$2,239,018</u>	<u>\$2,167,200</u>	<u>\$5,161,618</u>

The Company participates in an Employee Stock Ownership Plan adopted by Consumers Power pursuant to the Tax Reduction Act of 1975 and as modified by the Revenue Act of 1978. Under such plan, the Company claims annually an additional one percent investment tax credit and contributes such amount to a stock trust account for the benefit of its employees.

(6) COMMITMENTS AND CONTINGENCIES

Processing Facility Engineering Study

In September, 1977, the Company contracted for a preliminary engineering study relating to the proposed construction of a 750 ton-per-day uranium processing facility. The cost of constructing the processing facility, exclusive of contractor's profit, was estimated to be \$35 million in October, 1978. Additional feasibility, engineering and environmental studies are being conducted to further refine the cost estimate. Construction of the processing facility cannot proceed until the Company receives authorization from the United States Nuclear Regulatory Commission. At December 31, 1978, the Company had incurred \$3,468,040 for engineering and other studies relating to the processing facility, which amount is included in "Construction work in progress" in the accompanying financial statements.

NAC Fees

In connection with services rendered by NAC in acquiring and managing certain uranium properties, the Company is obligated to pay fees to NAC based upon uranium reserves, ore production and ore purchases in excess of 591,000

recoverable pounds from those properties. Such fees consist of \$.18 per pound of uranium concentrate contained in economically recoverable reserves, \$.30 and \$.48 per pound contained in produced and purchased uranium ore prior to milling, respectively, and \$.72 per pound of uranium concentrate milled. The fees are subject to adjustment annually based on fluctuations in the Wholesale Price Index of the United States, as determined by the United States Department of Labor, for certain months of each year. Contingent fees for which the Company may become liable will be capitalized for obligations ultimately incurred based on reserves; fees will be expensed currently for obligations ultimately incurred based on production, purchases or milling.

(7) LEASES

The Company has entered into various lease agreements which relate primarily to office space and equipment. The majority of these agreements are operating leases which provide for specified monthly payments. All of the operating leases expire within five years with the exception of the leases for the corporate offices and adjacent land, which are noncancellable until 1988 with five-year renewal options.

The following indicates the minimum future rental payments required under operating leases that have initial or remaining noncancellable terms in excess of one year as of December 31, 1978:

<u>Year Ending December 31,</u>	
1979	\$ 199,055
1980	191,675
1981	189,215
1982	189,215
1983	139,967
Subsequent years	<u>495,664</u>
	<u>\$1,404,791</u>

Total lease expense for 1978 and 1977 was \$246,929 and \$89,162, respectively. These amounts do not include payments, which as of December 31, 1978, were not significant, on the Company's three capital leases.

(8) LONG-TERM CONTRACTS PAYABLE

The long-term contracts payable are unsecured, and consisted of the following at December 31, 1978:

Promissory note, 7%, due in annual installments of \$45,000 through January 1, 1980	\$ 90,000
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Promissory note, 7%, due in annual installments of \$120,000 through November 1, 1982	480,000
Promissory note, noninterest bearing, due in quarterly installments of varying amounts through February 15, 1979	25,000
Liability relating to capitalized lease agreements, monthly payments due through September, 1981	67,082
Less - current portion	<u>(202,544)</u>
	<u>\$ 459,538</u>

(9) LINE OF CREDIT

In May, 1978, the Company entered into a line of credit agreement with a bank to provide working capital on an unsecured basis. The line is for a maximum of \$675,000 and carries an interest rate of one-half of one percent above the prime rate as determined from time to time. The agreement expires on May 1, 1979, unless extended by mutual agreement, and does not require an annual commitment fee or compensating balances.

During 1978, the maximum amount used during any month was \$500,000. The weighted average interest rate of the loans was 9.7%. No amounts were due, relating to the line of credit, at December 31, 1978.

(10) JOINT VENTURES

Great Basin Joint Venture

On October 1, 1978, the Company entered into a joint venture, called the Great Basin Joint Venture, with Brush Wellman, Inc. ("Brush"). The joint venture consists of an initial program and a subsequent program for the purpose of exploring and evaluating certain unpatented lode mining claims located in the Utah counties of Juab, Millard, and Tooele, as well as other properties that may be acquired.

Under the joint venture agreement, Brush contributed certain unpatented lode mining claims and the Company is committed to invest \$500,000 during the period October 1, 1978, through December 31, 1979, and has the option to make additional investments of \$500,000 per year during 1978 through 1982. If the Company elects not to make any of the optional investments, the joint venture terminates and the Company relinquishes all rights in the joint venture. During the initial program all losses are allocated to the Company. Any profits, which are not anticipated during the initial program, will be allocated in a manner determined by the participants at the time.

At the completion of the initial program, the Company will own 51% and Brush will own 49% of the joint venture. Additional investments in the joint venture, as well as losses and profits during the subsequent program, will be made in the ratio of ownership interests. The subsequent program will consist of further evaluation of favorable areas discovered during the initial program for the purpose of identifying commercial quantities of uranium ore. If commercial quantities of uranium are discovered, a separate commercial program agreement will be negotiated, as it is not the intent of the joint venture agreement to address such a program.

Sage Plain Joint Venture

Effective October 1, 1978, the Company entered into a joint venture, called the Sage Plain Joint Venture, with Frontier Resources, Inc. ("Frontier") and Nuclear Dynamics, Inc. ("Nuclear") to explore and evaluate the mineralization of certain properties located in San Juan County, Utah. The joint venture is divided into an initial program, which has two phases, and a subsequent program.

Frontier and Nuclear will contribute certain mineral interests as defined in the joint venture agreement at the completion of Phase 1 of the initial program. The Company is committed to invest \$625,000 in the joint venture during Phase 1 which began October 1, 1978, and extends through September 30, 1979. If the Company elects to continue in this joint venture after Phase 1, an investment in the joint venture of between \$750,000 and \$1,000,000 will be required of the Company during Phase 2 which begins October 1, 1979 and extends through September 30, 1980, depending on amounts invested by Frontier and Nuclear. Frontier has the obligation to invest \$250,000 during Phase 2, unless it elects to invest a lesser amount or no amount. If funds are not invested by Frontier or if a lesser amount is provided, Nuclear will have the obligation to invest 1/3 of the difference unless it elects to invest a lesser amount or no amount. If elections are made not to invest all or a portion of the \$250,000 by Frontier and Nuclear, the difference will be provided by the Company. If the Company elects to terminate its involvement in this joint venture, which is permitted in the joint venture agreement after Phase 1, the Company relinquishes all rights in this joint venture.

During Phase 1, the Company will have a 50% interest in this joint venture and Frontier and Nuclear will each have a 25% interest. The ownership interests after Phase 1 will be determined by various formulas set forth in the joint venture agreement and are directly related to the investments made by each participant. During Phase 1 and Phase 2, all losses will be allocated based on the participants' cash investments. After the initial program, the profits and losses will be allocated according to the participants' interests in the joint venture with minor adjustments which are set forth in the joint venture agreement.

The subsequent program will consist of further evaluations of favorable areas discovered during the initial program for the purpose of identifying commercial quantities of uranium ore. If commercial quantities of uranium are discovered, a separate commercial program agreement will be negotiated, as it is not the intent of the joint venture to address such a program.

Company Responsibilities

The Company is the manager of each joint venture, and in this capacity, is responsible for the general operations of the joint ventures. The Company is reimbursed for all costs incurred on behalf of the joint ventures, but receives no compensation in connection with the management of the joint ventures. Reimbursement to the Company of administrative overhead incurred by the Company on behalf of the joint ventures is to be made by the Sage Plain Joint Venture at a rate of 9% of project costs, subject to certain limitations. Reimbursement will not be made for administrative overhead by the Great Basin Joint Venture until the initial program is complete, when thereafter, administrative overhead will be reimbursed at a rate of 10% of project costs, subject to certain limitations.

The Company has accounted for the joint ventures using the equity method. At December 31, 1978, the investment in joint ventures, as reflected in the accompanying financial statements, has been based on the minimum commitments under the joint venture agreements of \$1,125,000 less the unpaid portion of these commitments as follows:

	<u>Sage Plain Joint Venture</u>	<u>Great Basin Joint Venture</u>	<u>Total</u>
Minimum commitments	\$ 625,000	\$ 500,000	\$ 1,125,000
Less:			
Unpaid commitments of the Company	<u>— (587,526)</u>	<u>— (398,093)</u>	<u>— (985,619)</u>
	<u>\$ 37,474</u>	<u>\$ 101,907</u>	<u>\$ 139,381</u>